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In the Supreme Court
OF THE
United States

OCTOBER TERM, 1967

No. 1415

MAIER BREWING COMPANY,
a corporation, et al.,
Petitioners,

vs.

FLEISCHMANN DISTILLING CORP.,
a corporation, et al.,
Respondents.

PETITION FOR WRIT OF CERTIORARI
to the United States Court of Appeals for the Ninth Circuit

J. ALBERT HUTCHINSON,
55 New Montgomery Street,
San Francisco, California 94105,
Attorney for Petitioners.

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PETITION FOR WRIT OF CERTIORARI
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Petitioners, Maier Brewing Company and Ralphs Grocery Company, respectfully pray that a Writ of Certiorari issue to the United States Court of Appeals for the Ninth Circuit to review its judgment entered in the above entitled cause. (Appendix 3.)

The *ratio decidendi* of the Court of Appeals (Appendix 3) is stated as matter of first impression and proposed the unique rule of decision, in trademark cases, that a trademark registrant is entitled to a money award which is not designed or intended to

compensate the registrant for any damage, property, expense or economic injury but to penalize the infringer "based on unjust enrichment rationale" (appendix 3, page xvi), which "has no relation to the damages, if any, sustained by the plaintiff in the action" (appendix 3, page xix) for the "effect of deterring future infringements" (appendix 3, pages xvi)—notwithstanding the limitation of the jurisdictional statute that a money award to the plaintiff "shall constitute compensation and not a penalty" (15 U.S.C. 1117, quotation, appendix 3, page ix).

The proposed ruling, as the earlier ruling by the Court in the same case *(Fleischmann v. Maier Brewing Co.,* 386 U.S. 714, 18 L.Ed.2d 475, No. 214, October Term, 1966) involves

> "... a trademark case arising under the Lanham Act (15 USC 1051-1127) in which our sole concern is with the relief that may be granted when deliberate infringement of a valid trademark has been established."
>
> * * *
>
> "It provided not only for injunctive relief, but also for compensatory recovery measured by the profits that accrued to the defendant by virtue of his infringement, the costs of the action, and damages ..."

I. PRELIMINARY STATEMENT AND REFERENCES HEREIN.

The proceeding before the Court of Appeals is an appeal from a judgment awarding to respondent James Buchanan & Company Limited (herein Bu-

chanan) recovery of asserted profits of petitioners Maier Brewing Company (herein Maier) and Ralphs Grocery Company (herein Ralphs) as accrued upon sales under a trade name registered to Buchanan made by petitioners in California (herein the state) during the period 1958-1963 $64,761—Maier, $34,912 and Ralphs, $29,849).

Maier is a brewer operating in Los Angeles, California, and manufactures and sells beer in California under what are known as "private labels" individually "assigned" to its respective customers in the state—including Ralphs—a retailer of foods in Los Angeles, California. *(U.S. v. Jos. Schlitz Brewing Company,* 253 F.Supp. 129, 133 affirmed 385 U.S. 37.)

Buchanan is a manufacturer of whisky in Scotland and is not licensed[1] or qualified as a foreign corporation to engage and does not engage, in any kind of business in California. Buchanan is the registrant of the trade name "Black & White" and related trademark in respect to its whisky under the Lanham Trademark Act (July 5, 1946, 60 Stats. 427; 15 USC 1051-1127, herein the act).

---

[1]The state's constitution (section 22 of Article XX) prohibits transactions in alcoholic beverages therein except as authorized by an appropriate license. The states have plenary and exclusive legislative jurisdiction over intrastate transactions in alcoholic beverages therein under the Twenty-first Article of Amendment to the Constitution of the United States (*State Board of Equalization v. Youngs Market Company,* 299 U.S. 59). The statutory regulation and licensing of transactions in alcoholic beverages in the state are provided in its Business and Professions Code (herein the code, Stats. 1953, Chapter 152, as amended, sections 23000-25762).

The Fleischmann Distilling Corporation (herein Fleischmann) is a New York corporation and the exclusive importer and purchaser for resale to licensed dealers of Buchanan's whisky in the United States and is licensed to engage and engages in business, in California, as a distilled spirits manufacturer's agent.

This is a fourth appeal from judgments and orders in the cause. The first appeal *(The Fleischmann Distilling Corporation, et al. v. Maier Brewing Company, et al.,* 314 F.2d 149, proceeding numbered 17,696 herein) reversed a defendants' judgment, directed an injunction to prohibit further use by petitioners of the name black and white in connection with beer, in avoidance of likelihood of confusion as to source of Maier's beer, and reserved to the District Court the subject matter of an accounting upon petitioners' prior use of the name by them (herein the first appeal); a later appeal, taken by petitioners from an order purporting to award respondents therein and herein attorneys' fees ($60,000) and nontaxable litigation expenses ($2,152.79) was reversed by the Court upon granting of writ of certiorari (October Term, 1966, number 214 *(Fleischmann Distilling Corp. v. Maier Brewing Company,* 386 U.S. 714).

The rulings and records in earlier proceedings before the Court are assumed as judicially noticeable. Certain portions of such records were received in evidence herein by reference (Transcript of Record, Volume II, Reporter's Transcript, page 12, line 13-page 13, line 13) in avoidance of duplication.

References herein to the Transcript of Record are at TR I, filings in the District Court and TR II Reporter's Transcript, respectively, to exhibits as PX and DX, respectively, and to state legislation as to that of the State of California. Unless otherwise indicated, emphasis, insertions and omissions in quotations herein are supplied by counsel.

II. STATEMENT AS TO JURISDICTION.

Jurisdiction of the Court is invoked under section 1254 of title 28 of the United States Code and that of the Court of Appeals and of the District Court was invoked under section 1121 of title 15 of the code. There is no pendent, or other, jurisdiction unrelated to the Lanham Trademark Act (60 Stats. 427, title 15 U. S. C., sections 1051, et seq.).

III. STATEMENT OF THE CASE.

A. INDUSTRY BACKGROUND AND FACTS ESTABLISHED IN PROCEEDINGS IN THE CAUSE ANTECEDENT TO THE TRIAL OF THE ACCOUNTING ISSUES.

As noted in *United States v. Jos. Schlitz Brewing Company*, 253 F. Supp. 129, affirmed 385 U.S. 37, certain beers are identified in the California trade as private label, or "price" beers—the latter described (253 F. Supp. 129, 133-134) as follows:

> ". . . The so-called price beers are beers which generally are not extensively advertised and sell at a price below that of the popularly priced

beers. Such beer is often sold by grocery store chains as private label beer, i.e., the specified chain has the exclusive right to sell beer under the label."

A major portion of Maier's business has been the production and sale of private label beer. Such "private labels" (some 30 to 50 utilized by Maier during the relevant period, TR II 18:9-19:10) were sold to individual customers of Maier under such respective names assigned to one only of such customers in a particular retail marketing area of the state. All such "private label" beers were of identical quality and price and have differed only in respect to the name appearing on the containers of such beer (TR II 26:15-27:1). Such private label beers, including black and white, have not been advertised by Maier or by its customers.

The name black and white had been used on many beverage products and had been registered with the United States Patent Office and with California authorities in connection therewith. The name black and white had been registered with California authorities and used as a brand name for beer in California—by the St. Claire Brewing Company for the period of 1935 through 1938—when it was abandoned by that brewer. Information of such use and abandonment were conveyed to Maier by one of its employees formerly employed by the St. Claire Brewing Company.

In 1956, Maier required a distinct "private label" beer for sale to Ralphs for resale at retail and adopted the name of "black and white" for that purpose.

Maier's executives believed, in adopting the black and white name as previously registered, used and abandoned in California, that beer and scotch whisky were distinct products[2] and that such use should not cause confusion among the buying public (first appeal, 314 F.2d 149, 157).

The good faith of Maier's executives and trademark attorney is shown by the uncontradicted testimony of its president and counsel in the record of the third appeal, in part:

> "Mr. Chotiner: Q. [to Maier's president] Did you ever receive any *advice from any lawyer that in his opinion you were permitted to use the name Black & White on beer manufactured by Maier Brewing Company?*
>
> A. *I did.*
>
> Q. *At the time that you contested the complaint in this matter, did you believe that you had a right to use the name of Black & White on beer manufactured by your company?*
>
> A. *Positively.*"
>
> (TR III 76:19-78:2, third appeal.)

> "Mr. Chotiner: Q. *Mr. Mellin, did you give any advice to the Maier Brewing Company on the subject of their right to use the name Black & White before the litigation was commenced?*
>
> A. *I did,* but I think it was through the firm of Hill, Farrer & Burrill in Los Angeles; I don't think it was direct.
>
> * * *

[2]Adjudications to this effect include: *Atlas Beverage v. Minneapolis Brewing Co.*, 113 F.2d 672; *Arrow Distilleries v. Globe Brewing Co.*, 117 F.2d 351 and *Century Distilling Co. v. Ph. Schneider Brewing Co.*, 26 F. S. 936 (Aff. 107 F.2d 699).

Q. And what was your opinion on that subject?

A. *My opinion was that the defense should succeed in the event of litigation, and they were so advised."*

(TR III 62:18-25 and 63:1-6, third appeal.)

In response to the pre-litigation demand of respondents' counsel that Maier cease use of the name black and white on its private label beer furnished to Ralphs, Maier's general attorney replied by his letter of December 26, 1957, in part as follows:

> "The name 'Black & White' which my client is using in connection with Beer, does not constitute an infringement, in my opinion, of your trademark used in connection with Whiskey.
>
> If you will check the records you will find the name 'Black & White' used with Beer has been used in this state for many years by others. We have been using it and now own the right as the previous user of the name abandoned its use."

In the first trial (196 F.S. 401-403) the District Court found there had been no actual confusion (Appendix 5, TR II 11:23-12:6, third appeal) and that there was no evidence of actual confusion between Maier's and Buchanan's products. The evidence of appellees on this subject is quoted by the District Court in its opinion (196 F.S. 401, 403 footnote No. 2) in relevant part as follows:

> "Q. Now is it your contention, Mr. Baumgarten, that *a customer would be confused in buying a can of Black and White beer put out by the*

Maier people that he was getting a product of Buchanan's?

A. *No. . . . No, my answer is no to your question.*

Q. You don't believe there would be any confusion in a customer's mind that they were *buying a beer made in Great Britain?*

A. *I wouldn't think so, no.*" (pp. 9-10.)

It was also adjudicated in the first trial and the first appeal (314 F.2d 149, 158-159) that no actual confusion of Buchanan's and Maier's products ever occurred at any time. The findings on this subject (as unaffected by the reversal in the first appeal) are (appendix 5) in relevant part:

"23. *There is no evidence of confusion . . . between plaintiffs' and defendants' products, . . .*

"24. *Plaintiffs have not been damaged by defendants, . . . nor has their good will in their Scotch whisky been damaged or diminished.*

"25. *Defendants have not* . . . made any effort to suggest that 'BLACK & WHITE' beer is the product of plaintiffs, nor have they *been guilty of practicing any deception in any manner whatsoever.*"

California and federal food and regulatory laws expressly require label identification of source of all containers of alcoholic beverages (e.g. sections 25200-25212 of the Business and Professions Code), and there is no suggestion that either Maier, or Buchanan, failed to conform to this requirement.

Maier did not simulate any feature of Buchanan's label or of its advertising format or symbols. (314 F.2d 149, 158-159.)

The basis of the rulings in the first appeal were stated by the court (314 F.2d 149, 152, 157) as follows:

> ". . . 'we are in as good a position as the trial judge to determine the *probability of confusion.*'"
>
> * * *
>
> "It is plain from the testimony quoted above that *Maier was laboring under* the same *mistake of law* which we have noted in the trial court's findings, *namely, that since the goods had distinctly different properties, there was no real competition between whisky and beer,* and hence that defendants' adoption of *the label would be lawful because no confusion*[3] *would be likely.*"

Although no formal finding was made, an injunction against further use of the name black and white by petitioners was directed. –

In the first appeal the issues were restricted to the act, the Court stating:

> "And because we have found adequate legal support for our conclusion in the Lanham Act, *we do not consider* here the appellants' argument that *the California law,* statutory and decisional, compels the same conclusion."
>
> (314 F.2d 149, 161.)

In the opinion in the third appeal (359 F.2d 156, 157, affirmed 386 U.S. 714), this ruling was interpreted as eliminating state generated claims, including unfair competition claims.

---

[3]Compare:
Plough, Inc. v. Kreis Laboratories, 314 F.2d 635, 640, February 20, 1963.

There is no evidence, nor foundation for any reasonable inference, that either of petitioners ever entered into any transaction related to beer manufactured or sold under the name of black and white in interstate or foreign commerce, or in any way impinging upon such commerce.

Upon remand in the first appeal the District Court entered its order of injunction as directed, petitioners terminated further use of the name and liquidated existing supplies of beer bearing the name as provided by stipulation and order of the latter Court. *No trial was had nor additional evidence received prior to entering the direction of January 21, 1964, that the accounting be had and taken.* (TR I 2.)

Appellees' counsel represented, during argument in the latter hearing as follows:

> "Well, of course, my partner Mr. Bailey Lang, tried this case and as I see the record he said he was not going to offer any evidence that we had lost sales.
>
> * * *
>
> "Of course, if there are not profits, there is no recovery." (TR II 16:15-17 and 19:18-19, third appeal.)

Respondents, without bringing on the accounting issues, next caused the hearing upon attorneys' fees and non-taxable litigation expenses involved in the third appeal. (Judgment for respondents reversed, 386 U.S. 714.)

B. SUMMARY OF THE RECORD AS RELATED TO THE ACCOUNTING ISSUES.

1. There was No Trial, and There Is No Finding of Facts, in Relation to Buchanan's Right to an Accounting.

As indicated, the direction in the order of January 21, 1964 (TR I 2) that an accounting be had was made without the taking of additional evidence, modification of the existing findings (appendix 5) or the filing of any finding of the District Court related to any accounting issue.

It the meeting leading to the latter order, the understanding was reached that petitioners' records would be examined by an accountant employed by respondents, accounting analyses of the parties would be exchanged and a further hearing had before the District Court. By stipulation and order, the accounting[4] was had on December 8, 1964, and the oral proceedings are reported as Volume II of the Transcript of Record herein.

At the accounting respondents asserted the position that no burden rested upon them to advance any proof upon any issue—excepting, only, to establish the amount of sales of beer under the name black and white by petitioners, in gross (TR II 3:22-7:19), and no other evidence was tendered herein by them.

Petitioners, however, asserted the position that respondents, as the plaintiffs, had not assumed or met the burden of proof of the entitlement of either of

---

[4]The accounting proceeded upon new and additional evidence, without assertion or reservation of any issue of res judicata or law of the case by reason of the first opinion in the cause.

respondents to an accounting or any recovery based thereon and requested and were granted a reservation of objections in respect to the accounting[5] subject matter (TR II 7:20-12:12).

The statement of these objections and reservations may be excerpted for convenience, namely:

> "Mr. Hutchinson: I think that we are not in agreement with Mr. Hanger that he has carried his burden of proof. That is why I would like to have all objections reserved. *He has not carried the burden of proof of showing any profit was made or any damage was done from the use of* the . . .
>
> The Court: Your position is that the general assertion as to gross sales does not suffice to discharge [the burden of proof] cast upon him.
>
> Mr. Hutchinson: Yes. Particularly in this case which is perhaps unique, at least among those cases I have been able to find. These parties were not competitors and could not [law] fully compete and, as I understand the cases, certainly *there is no right to* damages or to an accounting when there is no transference of sales, no deprivation of the plaintiff of sales, and no profit from the use of the [mark].
>
> For example, our proof will be the prices charged here by Maier for this beer and what they received from it was like all the other beer with all the labels that are furnished to markets and chain grocery stores such as Ralphs. The plaintiffs, neither of them, could sell beer. They couldn't deal at all with Ralphs. So I do not feel

[5]The absence of proof of use of the mark by either of petitioners in interstate or foreign commerce, being a matter of jurisdiction, is necessarily reserved as a matter of law.

that they have laid the foundation for an accounting. The accounting has been ordered but *they have not shown that there is any profit they could have received,* no matter how it happened. . . . So I do not believe they have made their first point.

They have to show damages. And as I read the record, *they have removed the contention that they were damaged in their economic interest.* Protection of the [mark] from [dilution] is one thing, but *to take money as damages, or accounting, if that is not two ways of saying the same thing, requires showing that they had some financial loss.* And from record, as I see it, it is utterly blank as to any financial loss, and I know of no presumption that will carry them forward.

The Court: The testimony at the trial from the representative, plaintiffs' representative, was categorically that there was no confusion.

Mr. Hutchinson: No actual confusion.

The Court: And that was stated on cross-examination. . . .

You reserve your right and I will consider the issue as a legal issue at the termination of the accounting.

Mr. Hutchinson: Yes, I hope we could reserve our objections without taking undue time. *Otherwise, we would waive [them] by going forward."* (TR II 10:3-12:12.)

2. The Evidence Establishes That Neither of Petitioners Used Buchanan's Mark in Interstate or Foreign Commerce.

Thus reserving their objections, petitioners offered, by reference, certain of the existing record in the cause, including the findings (Appendix 5) embraced in the first judgment in the cause, to the extent not

affected by the judgment in the first appeal (314 F.2d 149) and evidence received in earlier hearings as detailed in Volume II of the Transcript of Record at page 12, line 13, through page 13, line 13, the testimony of Messrs. Behr (TR II 14-42) and Hopper (TR II 42-49) and certain exhibits (DXAA, DXAB and DXCA).

Notwithstanding that Buchanan had not offered evidence on the jurisdictional issue of use of the mark in commerce, petitioners offered evidence to negate such use.

The evidence that Maier[6] did not sell black and white beer in such commerce is negative, and uncontradicted, namely:

> "Q. That was sales of all beers?
>
> A. Yes.
>
> The Court: Sales of all beers including the brand in question.
>
> Mr. Hutchinson: Yes, Your Honor.
>
> The Court: Would the record state at this time the totality of the brands that might have been included in the gross sales? Do you have any indication on that?
>
> Mr. Hutchinson: The different number of brands?
>
> The Court: Yes.
>
> Mr. Hutchinson: I think probably over thirty, not less than thirty, at any time during these periods.

---

[6]Patently, Ralphs, as a licensed retailer, did not sell Maier's beer in commerce and—its license privileges being limited sales at its respective physical premises (sections 23300, 23335 to 23387 and 23394 of the Business and Professions Code)—the presumption of lawful conduct (section 1963, subsections 1, 5 and 33 of the Code of Civil Procedure) prevailed.

The Court: Including domestic and foreign.

Mr. Hutchinson: *Well, Maier does not deal in foreign exports* to any extent, *and in this area of the so-called private label or low-priced beer, that I am quite sure is restricted to California,* at least for these purposes. As the Court may or may not recall, the general plan in this low-priced or private-label beer is to have *a label which is sold only to one merchant or group of stores,* sometimes in a particular area. So what they attempt to do, each merchant who resells to the public a private label, and sometimes the label is owned by the retailer, is to permit them to have a beer of this lower price with a label.

Perhaps Mr. Behr will have a better recollection. If he does he can correct me as to the number of brands.

The Witness: I think you are essentially correct . . . " (TR II 18:7-19:10).

There is no finding of any use of the mark in commerce, interstate or foreign.

3. There Is No Evidence of Injury or Damage to Buchanan by Use of the Mark.

There is neither proof nor any finding that Buchanan has been injured or damaged in its property, or in its financial and economic interests, much less that Buchanan was so injured or damaged by any act or inaction of either of petitioners in the use-in-commerce of the mark.

As noted in subpart A of this Part III, both of respondents expressly conceded that neither had lost sales nor been otherwise damaged by any conduct of petitioners.

Similarly, respondents declined to tender proof that either of petitioners had accrued any "profit" whatever by the use or advertising of beer under Buchanan's mark. To the contrary, petitioners' proof is that black and white beer was not advertised and was treated as all other "private label" beers, in part:

"Q. Now, in connection with Black and White *was there any advertising by Maier Brewing of that brand in any way?*

A. *No.*

Q. Now, were there any differences or distinctions in the handling of Black and White beer, other than this litigation, as distinguished from other proprietary or private-label brands?

A. Not to my knowledge.

Q. In other words, *this was a standard item insofar as production and sale of beer is concerned in the price category; is that right?*

A. *Yes.*" (TR II 26:15-27:2.)

Following the granting of the injunction responsive to the first appeal herein, the same beer, under the "new" name of Amber Brau *showed an increase in sales* of the respective petitioners over those of beer bearing the black and white name (TR II 3:1-7:19), in relevant part:

"Q. Do the records indicate sales of some other proprietary or private-label brand to Ralphs Grocery Company following that time?

A. Yes. Immediately after the brewery ceased selling Black and White beer to Ralphs . . . I believe in connection with this litigation . . . they had a new label made up called Amber Brau and they sold that to Ralphs in lieu of Black and White.

* * *

"... Q. Can you tell us very briefly the total and the minimum monthly sales, smallest monthly sales.

A. Yes. The total sales for the period from or about April 15, 1963 through the end of August 1964 of Amber Brau beer by Maier Brewing Company to Ralphs Grocery Company was 90,000 cases. In no month were the sales less than 3,600 cases per month, and on an average for the 16 and a half months' period the sales average out to 5,455 cases per month during this period.

* * *

". . . For purposes of comparison I took the 34-and-one-half-month period preceding April 15, 1963, and during this period Ralphs showed a total of 135,781 cases of Black and White beer. This is an average of 3,936 cases per month. . . ." (TR II 27:12-23; 28:7-19; 29:1-5.)

4. There Is No Showing and No Finding That Either of Petitioners Realized Any Profit by the Use of the Mark or Any Profit Other Than the Usual Return on Sales of Their Products in the Usual Course.

Maier produced and sold black and white beer to Ralphs as a private label beer, constituting less than .0129 of Maier's sales of its beer. Maier's prices and services were the same as on other private label beers sold to other customers and, as in the case of other private label beers, Maier did not advertise black and white beer.

Ralphs purchased black and white beer (as later Amber Brau), shelved it for self-selection by its customers as a lower priced beer with advertised popular priced and premium beers produced by other brewers

held for sale by Ralphs and did not advertise Maier's black and white beer, nor independently advertise other beers. Maier's beer represented .0010 of Ralphs' gross proceeds of sales of merchandise.

Petitioners' proof is that Maier's profit on black and white beers for the relevant period was $2,264.27 (TR II 40:11-25) and Ralphs' profit as $11,589 (as shown by respondents' expert, PXDA, page 3).

There is no dispute that Maier's sales of black and white beer constituted less than 1.29 per cent (.0129) of Maier's beer sales (DXAB, Table II and TR II 19:11-20:12) and Ralphs' records show its sales at retail of black and white beer were .10 per cent (.0010) of its sales of all merchandise (DXAA).

Maier's profit was less than .0515 per cent (.000515) (TR II 20:4-12 and 21:13-22) on its beers and Ralphs' profit on such beer 13.2-14.5 per cent (.1321-.145), vis-a-vis 18.50-22.99 per cent (.1850-.2299) for all merchandise during the relevant period (DXAA).

All the evidence produced demonstrates that each accounting item, cost of production and of sale, excise tax and every other expenditure for black and white beer was identical with the same items of expense and for all private label beers sold by Maier, including both of the private labels for Maier's beer consecutively purchased and resold by Ralphs in the respective periods before and after the injunction. Maier's profit was also identical for each of its private label beers. As noted, sales of Maier's beer under the "new" label were greater than under the black and white label. Ralph's items of expenditure and profit on

Maier's private label beers were identical, in the periods before and after the injunction, except for the early period when the intermediary, Duke Molner, was involved and the method of delivery was different (DXAA).

This evidence is undisputed and Buchanan has never suggested any mechanism by which either petitioner accrued any profit by use of the mark as distinguished from profit derived from black and white beer and some 30-50 other private label beers produced and sold in like circumstances at identical prices upon identical costs of production and sale.

All accounting computations (TR II 34:5-37:17 and 51:12-16) were advanced by the sales-ratio method, or relation of sales of black and white beer by Maier in direct proportion to its sales of all beers and of sales of such beer by Ralphs in relation to its sales of all merchandise.

The differences in the results of the examination of the records of petitioners advanced by respondents' accountant, vis-a-vis those advanced by petitioners' accountants, derive from respondents' inadmissible "add backs", or arbitrary "adjustments" (PXDA Tables II and IV, as to Ralphs, and DXAB Table IV, 51:12-16, as to Maier).

Respondents' accountant's unsupported "add backs" included the following:

1. Maier		
a.	Advertising	$647,990
b.	Abandonment losses on breweries purchased for brewing purposes	1,589,419
	Total	$2,236,409
2. Ralphs:		
a.	Advertising	$15,106
b.	Packaging and wrapping	3,154
	Total	$18,260

Respondents jointly advanced the sales-ratio method with petitioners and Buchanan's accountant has not sought to support his arbitrary "add backs"[7] by reference to any accounting principle or practice. Excluding such "add backs" Maier's maximum profit on sales of black and white beer, as beer, would be $2,264.27 and Ralphs' profits on sales of such beer, as beer, would be $11,589.

Buchanan tendered no showing or theory to support recovery of Ralphs' profits as well as Maier's profits, if recoverable—particularly when Buchanan cannot deal at retail, or at all in California, and cannot deal directly or through Fleischmann, with Ralphs at all.

No credit is proposed to be allowed to either petitioner for exactions from the other, or to either upon respondents' settlement with Duke Molner, the intermediary between petitioners in the purchase and

[7]Such "add backs" are not according to correct accounting principles and represent "an advocate's presentation" (*Efrom v. Kalmonovitz*, 249 C.A. 2d 187, 197, 57 Cal. Rptr. 248, hearing by Supreme Court denied.)

resale of black and white beer during the years 1956-1960 (DXAA and DXAB).

The instant findings do not find the accrual of any profit of either petitioner by use of the mark—but only the respective profits of the respective petitioners asserted by respondents to have accrued upon petitioners' sales of beer, *qua* beer, namely:

> "... 4. Each defendant has *derived profits from the sale of beer* under the 'Black & White' trademark ..."
>
> * * *
>
> "... between June, 1956, and the date defendant Maier discontinued use of the name 'Black & White', *Maier earned net profits of $34,912 from the sale of 'Black & White' beer.*
>
> * * *
>
> "... between June, 1956, and the date defendant Ralphs discontinued use of the name 'Black & White', defendant *Ralphs earned net profits of $29,849 from the sale of 'Black & White' beer* ..." (TR I 3:24-25; 4:16-18, 21-24).

It will be further noted that such findings are otherwise entirely conclusionary—as expressly adoptive of memoranda of respondents' accountant (TR I 4:14-15 and 19-20).

It goes without saying that *Buchanan was awarded the entire profit of both of appellants* upon the total of such profits as asserted by its accountant as returned to petitioners upon their sale of beer, *qua* beer.

At noted, the trial Court failed to find that either of petitioners had made any profit from the use of the mark, in commerce or otherwise.

Petitioners particularly requested findings to declare the profits derived by petitioners' respective businesses in such beer as resulted from their own economic values, to allow credit therefor, to eliminate respondents' unsupported "add backs", to find the facts upon the accounting data, independently, and to further find the absence of injury and damage to Buchanan's mark, property, business, goodwill and the absence of diversion of sales, actual confusion of source of Maier's beer, of oppressive, fraudulent or unfair conduct by either petitioner, and of competition of either petitioner with Buchanan in its business. Petitioners further so requested findings that no transaction in commerce hurtful to Buchanan had been shown and that Maier's beer sold upon its own merits, its quality and price and services and goodwill of petitioners.

All petitioners' requests for findings were denied by the District Court.

IV. CITATION TO THE APPLICABLE LEGISLATION.

Petitioners apprehend that the substantive, jurisdictional and procedural provisions of the act particularly applicable to the appellate issues herein are the following portions of the act, namely:

A. Section 1114, Title 15 U.S.C. provides, in relevant part:

> "1114. (1) Any person who shall . . . —
> (a) use in commerce, any . . . registered mark in connection with the sale, . . . or advertising of any goods, . . . or in connection with which such

use is likely to cause confusion . . ., shall be liable in a civil action by the registrant for the remedies hereinafter provided . . .".

(July 5, 1946, c. 540, Title VI, § 32, 60 Stat. 437; Oct. 9, 1962, Pub. L. 87-772, § 17, 76 Stat. 773.)

B. Section 1116, Title 15 U.S.C., in relevant part, reads as follows:

"1116. The several courts vested with jurisdiction of civil actions arising under this chapter *shall have power to grant injunctions, . . . to prevent the violation of any right of the registrant* of a mark registered in the Patent Office. . . ."

(July 5, 1946, c. 540, Title VI, § 34, 60 Stat. 439.)

C. Section 1117, 15 U.S.C. provides, in relevant part:

"1117. When a violation of any right of the registrant of a mark . . . shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, . . . *subject to the principles of equity,* to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. . . . If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. *Such sum* in either of the above circumstances *shall constitute compensation and not a penalty.*"

(July 5, 1946, c. 540, Title VI, § 35, 60 Stat. 439; Oct. 9, 1962, Pub. L. 87-772, § 19, 76 Stat. 774.)

V. ARGUMENT IN SUPPORT OF REQUEST FOR REVIEW AND, UPON REVIEW, FOR REVERSAL OF THE JUDGMENT OF THE COURT OF APPEALS.

A. THE COURT OF APPEALS PROPOSES TO AFFIRM A MONEY AWARD, IN THE ABSENCE OF ANY SHOWING OF DAMAGE OR ECONOMIC INJURY TO BE COMPENSATED, AS A PENALTY, IN VIOLATION OF THE LANHAM ACT, "FOR THE EFFECT OF DETERRING FUTURE INFRINGEMENTS" BY OTHER PERSONS.

As noted in the proposed opinion of the Court of Appeals (appendix 3), particularly as quoted on page 2 hereof, that court proposes a new principle of liability to money recoveries in trademark cases "based upon unjust enrichment rationale" *having "no relation to the damages,* if any, *sustained* by the plaintiff in the action" for the "effect of deterring future infringements", whereas the Lanham Act (15 U.S.C. 1117) specifically provides that *any* money award to a trademark plaintiff "shall constitute *compensation* and *not* a *penalty*".

As in the case of other money awards (of attorney fees, 386 U.S. 714), the act of the Congress is the exclusive source of judicial power and constitutes a limitation upon judicial power and discretion to make a money award to trademark plaintiffs.

The proposed rationale of "deterrence of future infringements"—if it is to be the rule—is a rule for all seasons and would—as does the ruling in respect to attorney fees (386 U.S. 714)—control trademark litigation under the Lanham Act throughout the nation, until the Congress—or this Court—has spoken further on the subject of recovery upon accountings

in such actions. For this reason, the announcement of a rule of conceded novelty[8] and of such obvious scope transcends the resolution of the dispute among these parties litigant and deserves examination and an affirmative declaration by the Court.

Petitioners respectfully submit that the proposed ruling violates the express limitations of Section 35 of the Lanham Act (15 U.S.C. 1117) both in the letter and the spirit of the Congressional enactment and should not become the rule of decision in trademark cases in this country.

Petitioners further submit that the proposed opinion of the Court of Appeals proceeds in violation of the proscription of the act that money awards shall not constitute a penalty and that any such award which is intended or has the "effect of deterring further infringements" constitutes a penalty, *per se.*

Since there are no pretensions that either of petitioners intend or threaten "future infringements" and infringed Buchanan's mark herein "under a mistake of law" (314 F.2d 149, 157) and "whose case was good enough to convince an experienced trial judge that it should win" (359 F.2d 156, 160), it is manifest that such "effect of deterring future infringements" must

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[8]The proposed opinion (appendix 3, page x) relies upon *Monsanto Chemical Company v. Perfect Fit Products etc.* (349 F. 2d 389, 395-396; Second Circuit, 1965) wherein that court remanded the cause for an accounting in an aggravated case of substitution of materials, mislabelling and other admitted acts of unfair competition, for which money relief would have been available in any jurisdiction in this country. The basis of these rulings is examined, in relation to the facts of this case, in sub-part B of this Part V, infra).

be directed at persons other than these parties litigant, an accepted rationale of punishment under criminal statutes.

Since equity does not punish, it is equally manifest that a penalty payable to a private litigant, if to be exacted, must be imposed as an exaction in the nature of punitive or exemplary damages at law.

Exemplary and punitive damages are necessarily punitive in nature and statutes providing for such damages uniformly so declare, i.e. Section 3294 of the Civil Code of the State of California provides that:

> ". . . where the defendant has been guilty of oppression, fraud, or malice, express or implied, the plaintiff, *in addition to the actual damages,* may recover *damages for the sake of example and by way of punishing the defendant.*"

The Congress has similarly provided in the Act (15 U.S.C. 1117, quotation, supra, Part IV) that—

> "In assessing damages the court may enter judgment, according to the circumstances of the case, for any *sum above the amount found as actual damages,* not exceeding three times such amount."

As a matter of statutory construction such a provision for the trebling of actual damages must be declared punitive in nature.

Compare:

> *Leh v. General Petroleum Corporation,* 330 F. 2d 288, 298-299, 9th Circuit, 1964; reversed on other grounds 382 U.S. 54 stating the rule as follows:

> "*What is recovered* under Section 7 of the Sherman Act (15 U.S.C. §15 note) *is no less a penalty on the wrongdoer than is the fine and imprisonment with which the sovereign can threaten the violator* under Sections 1 and 2, or the forfeiture of articles transported in commerce, as provided for in Section 6. . . .
>
> We conclude Professor Vold suggests an interesting legal theory i.e., that the courts should recognize that antitrust treble damages awards are made up of two sums, one compensatory for actual damage, and the second *compensatory for accumulative* intangible *unprovable harm,* requiring recognition that the total of the treble damages awarded was compensatory and not penal."
>
> (*Leh v. General Petroleum,* 330 F.2d 288, at 298-299.)

The Court of Appeals there further noted that—if any declaration that such enhancement of actual damages were to be considered as "compensatory"—such declaration must come by legislative action, stating (page 299) as follows:

> ". . . Such special, select (and perhaps deserved) interpretation must, in our opinion, *await legislative action, rather than be created by judicial enactment."*

It must be concluded that any money award "which has no relation to the damages, if any, sustained by the plaintiff in the action" is an award of a penalty.

Because the Congress has expressly provided for punitive damages and has not made any provision for a punitive award or enhancement of money relief

upon an accounting, it is thus clear: first, that the Congress has fully expressed its will in respect to awards of punitive damages in multiplying actual damages, in aggravated cases, and, secondly, has equally expressed its will that an award upon an accounting (or actual damages) must be "compensation and not a penalty" as required by the principle of statutory interpretation summarized as *inclusio unius est exclusio alterius.* Upon the same principle, it must be concluded that the provision for injunctive relief (15 U.S.C. 1116) is itself an adequate deterrence and represents a congressional determination of that fact —a proper legislative determination.

The ultimate conclusion follows, namely: that the proposed affirmance of an accounting award "for the effect of deterring future infringements" is without authority under the Lanham Act and beyond the jurisdiction of the District Court and the Court of Appeals herein.

Further, and assuming statutory jurisdiction under the act, it is inevitably unwholesome to take one man's money and *give* it to another—without measure, rhyme or reason and therein inheres the vice of a rule of men, in the place of a rule of law.

The two judgments of the Court of Appeals, one as proposed in the instant case (appendix 3), and another, in the case of *Highway Cruisers* (infra, 374 F.2d 874, appendix 4), illustrate the point in proposing to affirm two diametrically opposed trial court judgments upon the identical litigible entity. Any distinction to be found between these cases favors a

ruling in this case to conform to the forthright rejection of the automatic-accounting-upon-an-injunction ruling in *Highway Cruisers*. The proposed judgment of the Court of Appeals, therefore, runs counter to the rule of decision announced in an identical case by the same court only eleven months earlier, i.e.—

> "The trial court found the infringement deliberate but not wilful.[9] By that we think it meant that Security knew what it was doing but *it erroneously believed it had a legal right* to use two words, 'Sport Cab,' just as much as Highway Cruisers. . . . Many, many words are used by both sides on *the issue of an accounting or no accounting*. But we sum the thing up this way. In the testimony about damage, the court saw enough of Highway Cruisers damage to see that an accounting would amount to putting a whole sack of coal under a pound of popcorn.
>
> ". . . Under Champion Spark Plug Co. v. Sanders, 331 U. S. 125, 67 S. Ct. 1136, 91 L. ed. 1386, we think it clear that *an accounting such as Highway Cruisers sought is not automatic.*
>
> ". . . Equity has many reeds. A characteristic of it is that *one may get just enough relief to stop the evil where it is apparent no great damage was done to the complainant.*
>
> ". . . Our reading of the record, if we were making an independent evaluation, would bring us out about the same place as the district court arrived."

Further, as the Court of Appeals (Ninth Circuit, 1964) earlier declared:

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[9]The same ruling was made herein (314 F.2d 149, 157).

> "Such special, select (and perhaps deserved) interpretation must, in our opinion, await legislative action, rather than be created by judicial enactment."
>
> (*Leh,* supra, 330 F.2d 288, 299.)

It is submitted that the proposed ruling herein and the ruling in *Highway Cruisers* may not lawfully subsist, simultaneously—in the same court, in the same system of jurisprudence, under the same jurisdictional statute and, in all relevant respects, upon the same factual situations.

Otherwise, the trial process is "reduced to the plane of so-called oriental justice, according to which, it is said, the merits of the individual case alone determines the result." (Mr. Justice Schauer in *People v. Buffum,* 40 C.2d 709, 729, 256 P.2d 317.)

Thus, in two cases considered in the same court during the same year—where the infringement was deliberate, but not wilful—as under mistake of law—but no damages were sustained, an injunction was granted and one trial judge awarded a recovery of one dollar and the other trial judge made an award of $60,000!

Assuming jurisdiction and the statutory power to impose a punitive "accounting" award, for "deterring future infringements", this case and this record do not provide a suitable vehicle for such a declaration of judicial policy or of statutory interpretation, nor any justification for innovation of this magnitude.

Moreover, the Court here deals with the dilution-of-the-mark concept, for which injunctive relief is available—even though there is no competition and no injury or damage to the registrant—as the right of the registrant[10] includes the right to prevent erosion of the mark in the future (first Appeal herein, 314 F.2d 149, 155, 161, certiorari denied 374 U.S. 830). Compare:

Chemical Corp. of America v. Anheuser Busch, Inc., 306 F.2d 433,

and comment on the dilution principle in 51 California Law Review 250-254, particularly at 252.

The distinction to be made as between injunctive relief—in the absence of elements necessary to money relief—and compensation for economic injury actually sustained has received recent attention of legislative bodies, as well as consideration by the federal courts.

In respect to trademarkes, the legislature of the state adopted (1967) revised legislation on this subject, after an extensive study by the California Law Revision Commission. This legislation, in respect to the subject matter of this litigation, provides (Sections 14200-14342 of Business and Professions Code, Stats. 1967, Ch. 1556), in relevant part:

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[10]The proposed opinion is in error (appendix 3, page vi) in stating that the same condition of "use in commerce" applies to injunctive relief as to money awards. Section 1116 authorizes an *injunction based upon registration*, namely:

"The several courts vested with jurisdiction of civil actions under this chapter shall have power to grant *injunctions . . . to prevent the violation of any right of the registrant of a mark registered with the patent office.*"

"*. . . The registrant shall not be entitled* under this subdivision *to recover profits or damages unless the acts have been* committed with knowledge that such mark is *intended to be used to cause confusion or mistake or to deceive.*"[11] (Section 14320.)

"*Likelihood of* injury to business reputation or of *dilution of the distinctive quality of a mark* valid at common law, or a trade name valid at common law, *shall be a ground for injunctive relief notwithstanding the absence of competition between the parties or the absence of confusion* as to the source of goods or services." (Section 14330.)

It is submitted that the deterrence rationale, or theory, is without authority under the Lanham Act, is unsound in principle and should not become the rule of decision in trademark cases in this country—for which reasons review should be granted by the Court herein.

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[11]The District Court particularly found (appendix 5) partially quoted in part III hereof, in part:

". . . there is no evidence of confusion" and petitioners "have not been guilty of practicing any deception in any manner whatsoever."

B. ASSUMING JURISDICTION AND DISCRETION IN THE DISTRICT COURTS TO AWARD AN INFRINGER'S PROFITS AS A PENALTY FOR THE "EFFECT OF DETERRING FUTURE INFRINGEMENTS", THE INSTANT JUDGMENT NEVERTHELESS CONSTITUTES CLEAR ERROR AND PREJUDICIAL ABUSE OF JUDICIAL DISCRETION REQUIRING REVERSAL.

If it may be assumed that the act (15 U.S.C. 1117)—although prohibiting money penalties—could be construed as authorizing an award of money for the sole purpose of "deterring future infringements" having "no relation to the damages, if any, sustained by the plaintiff in the action", the record in this case will not sustain the proposed application of any such rule to the resolution of the issues in this cause.

1. Recovery of an Infringer's Profits Is Not Automatic Upon Finding of Likelihood of Future Confusion As to Source and Trial, Proof and Finding of a Right to an Accounting and of Compensable Injury to the Registrant Are Conditions to Recovery of Money.

The instant record demonstrates that the judgment of the Court of Appeals proposing to affirm the ruling of the District Court is unavoidably based upon the fundamental fallacy of unqualified acceptance of Buchanan's *ipse dixit* that (1) a declaration of infringement of its registered mark and (2) an injunction to prohibit its future use in transactions in Maier's beer in avoidance of the likelihood of confusion as to source of Maier's beer—without trial, proof or finding upon the issue and question whether an accounting should be ordered—supports a money recovery herein. Herein, the existing and unmodified findings (appendix 5) preclude an accounting and no

trial of the right to an accounting was had, although that subject matter was expressly remanded to the District Court for trial (appendix 6).

The rulings in the first appeal (314 F.2d 149, 161) were as follows:

> "We hold therefore that the court below was in error in denying the injunction prayed for."

and (page 162):

> ". . . plaintiffs' *right to an accounting . . . remains for decision* by the district court."

Petitioners further submit that the provision for the recovery by a trademark plaintiff of a defendant-infringer's profits has no application—unless his right is affirmatively shown and it is shown that such plaintiff has suffered compensable, economic injury proximately caused by such infringement to be compensated by such recovery, and such recovery may not be punitive or exemplary in nature under section 35 of the act (15 U.S.C. 1117).

It is, therefore, petitioners' submission that the burden of proof rests upon the trademark plaintiff to prove his right to an accounting, including the fact of use of the mark in commerce, and the fact of his compensable injury as proximately caused by such use.

In brief, petitioners *have timely asserted, as their objection to the instant trial, that the mere fact of infringement does not, in and of itself, entitle such a plaintiff to an accounting or to the recovery of the infringer's profits* (part III, V, 1 hereof, supra).

The rulings of the Court and of the Court of Appeals are uniformly to this effect.

See:

Champion Spark Plug v. Sanders, 331 U.S. 125, 131, 91 L. Ed. 1386;

Highway Cruisers of California, Inc. v. Security Industries, Inc., 374 F.2d 875 (appendix 4);

Sleeper Lounge Co. v. Bell Mfg. Co., 253 F.2d 720, 723-724 (Ninth Circuit, 1958);

National Van Lines v. Dean, 237 F.2d 688, 694 (Ninth Circuit, 1956);

Golden West Brewing Co. v. Milonas & Sons, 104 F.2d 880 (Ninth Circuit).

The Court, in *Champion,* has plainly declared the rule, namely:

> "*Mishawaka Rubber & Woolen Mfg. Co.* . . . [316 U.S. 203 . . .] *does not stand for the proposition that an accounting will be ordered merely because there has been an infringement . . . Here, as we have noted, there has been no showing of fraud or palming off* . . . Moreover, as stated by the Circuit Court of Appeals, *the likelihood of damage to petitioner or profit to respondents due to any misrepresentation seems slight.* In view of these various circumstances it seems to us that the injunction will satisfy the equities of the case."

Assuming jurisdiction and proof of such use in commerce and of a further and affirmative showing of damage to the trademark plaintiff, an accounting may not be required of the infringing defendant *without*

a further affirmative showing that such defendant accrued profits by such use of the mark—as distinguished from profits accrued by the infringer upon its own values in the usual course of its business. In short, an accounting upon, and recovery of, an infringer's profits can obtain only upon an affirmative showing that the infringer did, in fact, accrue *profits by the misuse of the mark.*

Assuming jurisdiction and such showing, petitioners further submit that such a plaintiff is not entitled to recover the profits of both the manufacturer and the retailer of goods bearing the name of the plaintiff—to result in a double recovery.

Since these issues and questions were not tried and no findings were made thereon, the purported accounting was unauthorized, the order of the District Court under review herein is a nullity, and should be reversed, in all events.

The Court of Appeals' reliance upon the case of *Monsanto Chemical Co. v. Perfect Fit Products Manufacturing Co.*, 349 F.2d 389 is misplaced for the reason that the *Monsanto* court made it clear that that record did show actual damage and actual deception on the part of the defendants in that action.

The *Monsanto* factual situation (as forthrightly noted in the specially concurring and dissenting opinion (349 F.2d 389, 397-398)) would support a recovery of damages in any court in any jurisdiction in this country (compare *Dairy Queen, Inc. v. Wood*, 369 U.S. 469). Herein, it is expressly conceded that re-

spondents suffered no damages, nor any economic injury save "out of pocket expenses in prosecuting this action" already adjudicated against them (386 U.S. 714).

Ostensibly, the *Monsanto* court considered its ruling as novel only in affording an accounting in the absence of direct competition between the registrant and the infringer (page 393 and minority opinion, page 398), although expressly recognizing that the element of competition between the parties is not irrelevant (page 397).

Further, ostensibly, the *Monsanto* court (349 F.2d 389, 391, 393) was only seeking to get around its earlier rulings that accounting recoveries were limited to parties in direct and immediate product and geographical competition and there was an accepted "rationale" for holding Perfect Fit, as a contracting party who had breached a contract of purchase to substitute its own products under *Monsanto* trademarked label. This was precisely the situation presented in *Dairy Queen*—wherein the Court had held an infringement claim for damages was stated and required a jury trial to resolve it (369 U.S. 469, 476-479).

Without presuming to criticize the *Monsanto* court, it is necessary to say that the ruling that punitive damages, or recovery of "profits" *as a means of deterrence,* under authority of section 1117 is unsound as applied to the facts of our case and, such ruling being *obiter dictum*—it is submitted—should not have been followed in the instant judgment and the rulings

below under review here are, therefore, clearly erroneous.[12]

Finally, it is manifest that the *Monsanto* plaintiff assumed, and carried to conviction, the burden of showing its economic injury—whereas Buchanan, in our case, suffered a calculated default in proof, precisely, an arrogant refusal to support its claim to money, even to *pretend foundation* for nominal damages. The obvious impossibility of showing money damage by conduct of Maier, or Ralphs—while explaining Buchanan's stance in trial—but makes matters worse. Having been originally forthright in admitting:

> "Counsel steps into this case for the first time, files a petition for rehearing and *says there should be no accounting* because the plaintiffs said before Judge Harris that *it had no evidence of damage.*
>
> Well, of course, *my partner,* Mr. Bailey Lang, tried this case and as I see the record he *said he was not going to offer any evidence that we had lost sales.*"
>
> * * *
>
> "Of course, *if there are not profits, there is no recovery.*" (TR II 16:15-17 and 19:18-19. third appeal quoted supra.)

only second thought generated the purely predatory raid here exposed.

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[12]Please note that finding 2 (TR I 5:21-30) is, independently, clearly erroneous in disregarding the stipulation and order for the liquidation of existing supplies of packaged beer and beer in process and finding 3 (TR I 6:4-23) is, independently, clearly erroneous as directly opposed to the uncontradicted evidence in this hearing and to the rulings in the first appeal (314 F.2d 149, 157).

Buchanan, therefore, here stands upon its injunction, or it stands on nothing.

No more forceful application of the rule petitioners here urge could be found than the rulings in

National Drying Machinery Co. v. Ackoff, 245 F.2d 192, 193 (Third Circuit, 1957),

wherein the infringing sales had been made in violation of an injunction prohibiting "the use of the mark" (pp. 192-193). On the main issue, there and here, the court vacated the judgment and directed that the money award be eliminated, stating the controlling rules of decision as follows:

> ". . . Whether an award in civil contempt be measured in terms of a plaintiff's loss or *a defendant's profit, such an award, by very definition, must be an attempt to compensate plaintiff* for the amount he is out-of-pocket or *for what defendant by his wrong may be said to have diverted from the plaintiff or gained at plaintiff's expense.* Unless this limitation is recognized, *a requirement that one party turn his profits over to his adversary itself becomes a punitive rather than a compensatory imposition.*"
>
> * * *
>
> ". . . This conception is particularly important here because in the original disposition of the present petitioner's trademark infringement claim *it appeared to the district court that the plaintiff had suffered no economic injury from the trademark infringement and that there was not 'any real danger of the plaintiff's product being brought into disrepute by the defendant's use of the name* * * *.' . . . On appeal this court said 'the trial court is correct in its findings that there

is no proof of any damages * * *.' 228 F.2d at page 350.

"There is no suggestion in the present proceeding that this absence of economic injury has been changed by the contemptuous conduct of the defendants. The district court does say that the 'equities' have been changed by this willful misconduct. *But there can be no 'equity' in a compensatory award except as it provides a fair equivalent for some loss. . . .*

"The judgment will be vacated and the cause remanded with directions to modify the award by eliminating the $5,000.00 item. . . ."

2. If It Be Assumed That the District Court Acquired Jurisdiction to Order an "Accounting", in Advance of Trial, Proof and Finding Upon the Issues of Buchanan's "Right to an Accounting", No Proof to Support a Finding of Such Right to an Accounting Appears in the Record.

As detailed in part III hereof (subpart 1), petitioners timely reserved their objection to an "accounting" in advance of the trial of the remanded issue of Buchanan's *right to an accounting* and respondents refused to proffer proof upon the issue.

In the exigencies of the overruling of petitioners' objection to an "accounting"—in the face of findings contra then on file (appendix 5) and in the absence of the trial, or proffer of proof in support, of Buchanan's right to an accounting—petitioners affirmatively established, by credible, unimpeached and uncontradicted proof that no profits had accrued to either of petitioners by the use of Buchanan's mark in commerce, or otherwise (summary and quotation, part III, B, supra).

Although the Court of Appeal (appendix 3, page xvii) recognizes the rule announced by the Court in *Mishawaka* (316 U.S. 203, 206) that the trademark defendant may show "that the infringement had no relation to the profits made by the defendant", it disregards the unquestioned and uncontradicted proof of petitioners that no such relationship of infringement-to-profit did exist and, nevertheless, proposes to affirm "a truly harsh result . . . reached under this rule".

As the record has been detailed in part III, B, hereof (supra, subparts 2-4), it need not be here repeated.

The *Mishawa* rule of the Court has heretofore been enforced by the Courts of Appeals.

See the leading case of

Obear-Nester Glass Co. v. United Drug Co., 149 F.2d 671, 673, 674, 676 (Eighth Circuit, 1945),

in relevant part:

> "The Burden of Proof.
>
> "(a) On Appellee's Profits. . . . In Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co., 316 U.S. 203, 62 S.Ct. 1022, 1024, 86 L.Ed. 1381, it is held that in actions under the statute the burden is upon the infringer to prove deductions from his sales of the infringing articles; . . . However, as appears from the opinion in the Mishawaka case, the presumption mentioned is rebuttable. *The infringer may show that 'the infringement had no relation to profits.'* The Court said:

> " 'If it can be shown that the *infringement had no relation to profits made by the defendant, that some purchaser bought goods* bearing the infringing mark because of the defendant's recommendation or his reputation or *for any reason other than a response to the diffused appeal of the plaintiff's symbol,* the burden of showing this is upon the poacher. *The plaintiff of course is not entitled to profits demonstrably not attributable to the unlawful use of this mark. . . .*"

Not only does petitioners' uncontradicted proof establish that Maier's beer sold on its own merit, the profits on black and white beer were exactly the same as on all other private label beers and both of petitioners dealt with this product as with all others, but the findings of the District only declare the profits received on the sale of black and white beer, *qua* beer, and declare nothing as to the non-existent "profit" on the use of Buchanan's mark! (TR I 3:24-25; 4:16-18; 4:21-24.)

It follows that this "truly harsh result has been reached" in this case and that the proposed decision of the Court of Appeals is clearly erroneous for this independent reason, in all events.

3. If It Be Assumed That an Accounting Award of Any Kind Could Be Supported on This Record, the Proposed Decision Constitutes Clear Error in Disregarding Uncontradicted Proof of Expenses Properly Reducing the Asserted "Profits" of Petitioners Herein Proposed to Be Transferred to Respondent Buchanan.

The Court of Appeals (appendix 3, page xviii), while recognizing that deductions from gross sales proceeds must be recognized in reduction of asserted

"profits", declines to recognize uncontradicted, unimpeached and conceded proof that petitioners were entitled to deductions for legitimate business expenses actually incurred and paid and recognized in business, accounting and tax practice—only to be eliminated by inadmissible "add-backs" of respondent's accountants.

Indisputably, petitioners did carry their burden of proof of showing such legitimate expenses—all proposed to be disallowed herein—which are conceded by all witnesses and all parties as actual and proper business expenses, yet are to be rejected only by such unauthorized "add-backs" which do not conform to "accepted accounting practices" (appendix IV).

There is no basis in this record for disregarding accepted principles of proof and no one disputes that petitioners' costs for "advertising and packaging and wrapping" and "abandonment losses" actually were incurred and actually reduced the gross profits proposed to be awarded below.

See 87 CJS 615, 616, Trade Marks, §216(2), and cases cited.

The "harsh result" here is to appropriate as "profits" admitted sums expended for business purposes to transfer non-profit *expenditures* of the respective petitioners in the amounts of $32,648 and $18,260, aggregating $50,908—a "harsh result" indeed. (TR II 34:5-35:10.)

This clear error is also a matter of general application and such an erroneous rule of decision should

not be engrafted upon trade mark litigation in this country.

4. In All Events, Buchanan Should Not Be Permitted "to Collect Twice"—Even on a Theory of "Deterrence."

The judgment below awarded asserted "profits" of both petitioners and the Court of Appeals proposes to affirm on the theory that—

> "As our resolution of the question as to the appellees' right to an accounting indicates, *this was not the basis for the accounting in this action. The dollar amount* of the recovery in an accounting for profits under the unjust enrichment rationale *has no relation* to the damages, if any, sustained by the plaintiff in the action." (Appendix 3, page xix.)

It must be taken as self evident that "this harsh result" exceeds anything to be found in the cases, or the literature, on restitution, or related to unjust enrichment—even civil penalties.

If there is to be a punitive exaction—for deterrence, or otherwise—one exaction should be enough.

It requires no extended citation of authorities for the proposition that a plaintiff cannot recover from *each* of the joint tort-feasors causing him injury. (See sections 1474 and 1541-1543 of the Civil Code and sections 875-878 of the Code of Civil Procedure and predecessor statutes of the State of California.)

Section 1117 does not make any special provision for recovery against persons jointly liable for damages or upon an accounting and the statutes of the

state proscribe duplicative recoveries and, in fact, provide for contribution among joint obligors. (Sections 1340 and 1342 of the Civil Code.)

We have not found any authoritative ruling upon the exact point under Section 1117 of the act—but in the case of similar recoveries in respect to related fields of business regulation by the Congress the rule against double recovery is clear.

In

Aro Manufacturing Co. v. Convertible Top Co., 377 U.S. 476, 12 L. Ed. 2d 457,

the Court considered the subject and stated the applicable rule as follows (page 483):

> "Hence we think that *after a patentee has collected from or on behalf of a direct infringer* damages sufficient to put him in the position he would have occupied had there been no infringement, *he cannot thereafter collect* actual damages *from a person liable only for contributing to the same infringement.* This principle is but an application of the rule that full satisfaction received from one tort-feasor prevents further recovery against another."

See also the case in the District Court of

Wilbur v. Superior Concrete Accessories, Inc., 217 F. Supp. 600 (U.S.D.C. N.D. California, S.D., 1963),

wherein the court enjoined a patent plaintiff from bringing further actions against the defendant's customers for damages based on a theory of contributory infringement.

It is therefore respectfully submitted that the double recovery sought to be projected by the instant judgment violates the obvious principle that an injured party may not recover more than once by separately recovering from all tort-feasors participating in the asserted damaging actions—in any event whatever.

It is further submitted that in this case, Buchanan cannot recover from petitioners, separately or collectively, the profits accrued upon the infringement of the mark, if any, more than once, and that no infringement was independently carried out by Ralphs.

This problem in review and the defects in support of the instant judgment—from this point of view—derive directly from Buchanan's refusal to offer any proof of damage or any proof that anyone had accrued any profits by the infringement enjoined in the first appeal. In consequence, the trial court simply did not resolve this question or determine the related and relevant factual issues, and could not do so, because Buchanan had offered no proof on which findings and rulings could be made in this context.

Since petitioners timely and clearly reserved their objections to the anomalous procedure resulting from Buchanan's refusal to take part in the trial in any meaningful sense, its refusal to tender any evidence in proof of its case, this judgment should be reversed for these reasons, even if Buchanan were theoretically entitled to a monetary recovery in a proper case made.

VI. SUMMARY AND SUBMISSION.

Petitioners respectfully submit that the opinion and decision of the Court of Appeals proposes a deterrent theory of money recovery in trademark cases as a civil punishment in violation of the express limitation upon recoveries of money under the Lanham Act, i.e.: that such recoveries "in either of the above circumstances shall constitute compensation and not a penalty".

The instant proposal of a deterrent rationale—to escape the plain proscription of the act—only begs the question.

To date, no case to arise under the act has affirmed an accounting award upon a deterrence theory. To bypass the proscription of punitive awards under the act but launches trademark litigation (and business dealings, as well) upon a sea of troubles, without chart or beacon and, indeed, without discernible port of destination.

When it is admitted that no possible economic injury has been sustained—it but smacks of corruption to take one man's money and give it to another—a function so far abjured by the federal (as by all other American) courts.

Should such an unwholesome novelty ever come to be seriously considered, it should await a stouter vessel than this one.

Public policy in this matter is for determination by the Congress and the revolutionary "leap forward" here proposed is not justified by the modern instance

that "this is an age of television and mass communications—for it is still an age of law—and the advertiser's "conditioned reflex" should not be permitted to divert attention from the congressional proscription of penalties in trademark cases.

Petitioners respectfully submit that Buchanan's demands for their money are entirely meretricious and predatory, precisely seeking its own unjust enrichment at their expense for non-existent economic injuries. Buchanan's claim to the injunction presented a close case, but an honorable one, and there are no further equities running in Buchanan's favor.

In gross, as in detail, this judgment is unsupported and erroneous in each of the respects considered herein and, for each of these reasons, should be reversed. The writ should issue—to permit a lawful disposition of this case and to prevent an unfortunate and insupportable misinterpretation of the trademark laws as a precedent in other cases to arise under the Lanham Act.

Dated, San Francisco, California,
April 29, 1968.

Respectfully submitted,
J. ALBERT HUTCHINSON,
Attorney for Petitioners.

(Appendices 1, 2, 3, 4, 5, 6, 7 and 8 Follow)